1971 Annual Report

INTERNATIONAL SYSTCOMS LIMITED
AND
R. H. NICHOLS CO. LIMITED

INTERNATIONAL SYSTCOMS LIMITED
AND
R. H. NICHOLS CO. LIMITED

Board of Directors

John H. Baldwin
Robert E. Bellamy
John W. Dobson
Gerald B. Gray
Paul F. McDonald
A. Roy Megarry
Joseph F. Nealon
Michael P. Pick
F. Vincent Regan

Officers

John H. Baldwin, P.Eng., President
A. Roy Megarry, Vice President - Finance and Treasurer
Frederick J. Looker, Vice President
Joseph F. Nealon, Vice President
L. P. Hurtubise, Vice President
F. Vincent Regan, Q.C., Secretary

Auditors

McDonald, Currie & Co.
630 Dorchester Boulevard West
Montreal 101, Quebec

Transfer Agent and Registrar

Montreal Trust Company
777 Dorchester Boulevard West
Montreal 113, Quebec

General Legal Counsel

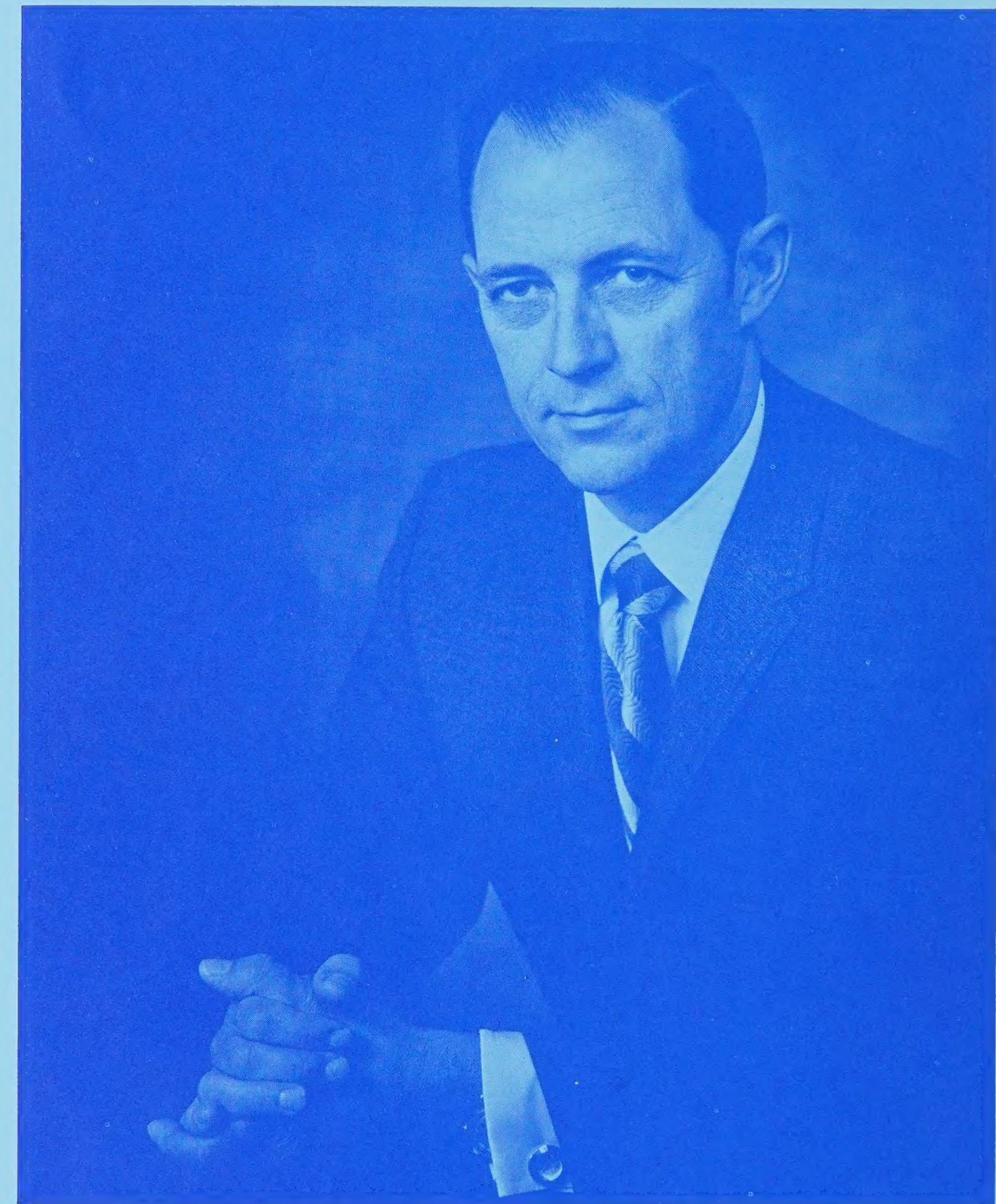
F. Vincent Regan Q.C., Toronto

Head Office

4900 Fisher Street
Montreal 377, Quebec

Bankers

The Royal Bank of Canada
The Toronto-Dominion Bank
The Canadian Imperial Bank of Commerce



JOHN H. BALDWIN, B.A.Sc., M.S., P.Eng.
President, International Systcoms Limited and Subsidiaries.

R. H. NICHOLS CO. LIMITED
FERRITRONICS LIMITED
PROGRESS BALANCE & CONTROL LTD.
SYSTCOMS INC.
SYSTCOMS LIMITEE
HOSPITAL MONITORING SYSTEMS LIMITED
ELECTRONIC CONSULTANTS LIMITED
TRONICS LIMITED

PRESIDENT'S LETTER TO THE SHAREHOLDERS

The year saw success in many endeavours even though the economic climate was severely unfavourable. Profits were earned through the first half and all signs pointed to continuation of the trend. However, both International Systcoms Communications Division, in Montreal, and Ferritronics, in Richmond Hill, experienced a sudden fall-off in order rate in December which did not recover until March, too late for shipment in the fiscal year. During this recessive period the decision was made to retain key staffs and organization even though some of the earlier profits would be lost. This decision has proven correct in our ability to respond to the present high level of business in most of the Divisions. The full year in these two operations saw a small profit in Communications Division offset by a loss in Ferritronics contributing to a net loss in International Systcoms consolidated. The loss in R. H. Nichols has also been reflected into the earnings statement of International Systcoms.

R. H. Nichols, not consolidated with International Systcoms, encountered an earlier fall-off of orders for delivery in the second half of the year causing a small loss, a significant improvement over the past two years.

During the year the company continued to expand its product strength. Two new models of mobile radios were introduced, and are contributing to the planned sales growth of the Communications Division in the current year. Ferritronics introduced a line of "active" filters, ensuring that it is prepared to respond to the changing demands of its customers. R. H. Nichols concluded a licensing agreement with Radiation Inc., acquiring manufacturing rights to their proven solid state supervisory system designed to modern standards. The Instrument Division of Nichols assumed the name Metermaster, and added to its scope by taking on eight new product line distributorships and by opening a modification centre for panel meters, unique in Canada.

In May 1970, 1,360 second preference shares of R. H. Nichols (about 12% of the outstanding) were redeemed at par as required by the conditions attaching to the shares.
In September 1970, 800,000 shares of International Systcoms Treasury stock were sold at 50¢ a share to yield $400,000 for working capital. This placement is the one reported at the last Annual Meeting.

If the economic climate of the electronics industry had not turned down so suddenly about mid-year, the company would have continued the early trend and would have reported its first combined profit in three years. The operations have now resumed that trend and are forecast to continue to improve during the current year.

John H Baldwin

JOHN H. BALDWIN, President

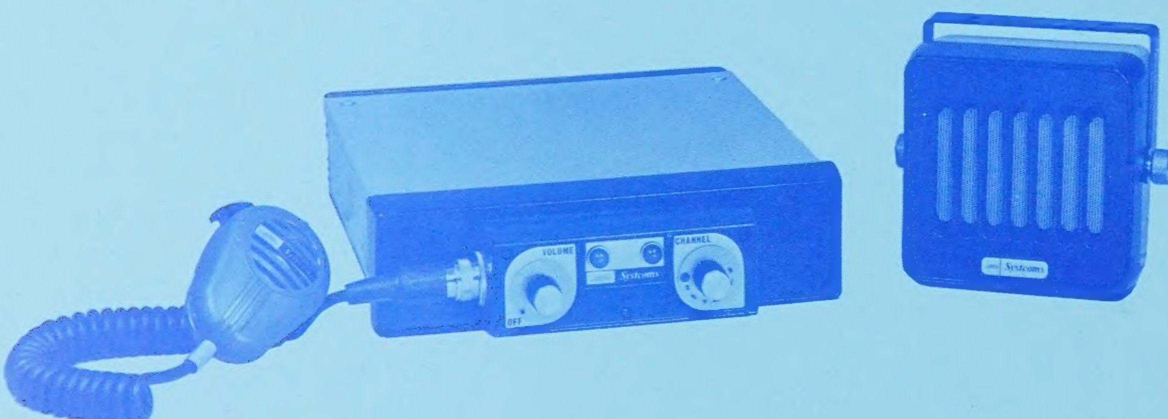
YOUR COMPANY — ITS DIVISIONS AND PRODUCTS

INTERNATIONAL SYSTCOMS LIMITED AND CONSOLIDATED SUBSIDIARIES

— COMMUNICATIONS DIVISION

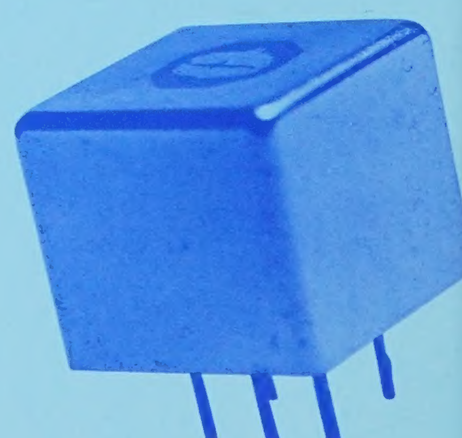
Manufacturing facilities in Montreal, P.Q., and Plattsburg, N.Y., produce Mobile radio telephones for public and private use — trunk mount and under-dash mount; VHF hand-held transceivers and Radio paging systems.

Typical major customers: Bell Telephone of Canada, B.C. Telephone, Alberta Government Telephone, CN Telecommunications.



— FERRITRONICS LIMITED

Located in the Toronto suburb of Richmond Hill, Ontario, Ferritronics' plant is equipped with the most advanced production and test facilities to manufacture LC electronic components, filters, mixers and oscillators.



New product line: Active Filters

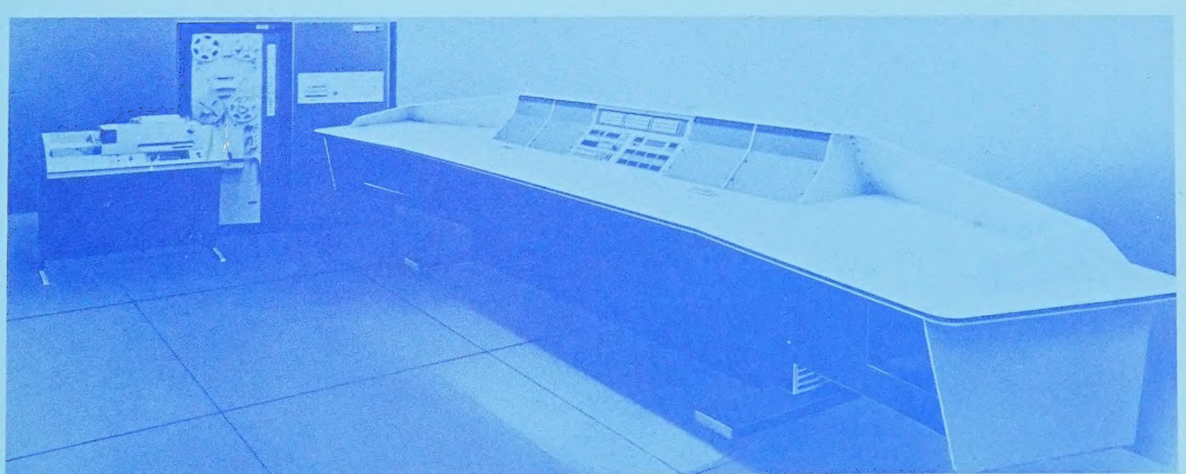
Typical major customers: Raytheon, Quindar, Marconi

R. H. NICHOLS CO. LIMITED (UNCONSOLIDATED WITH INTERNATIONAL SYSTCOMS)

— SYSTEMS DIVISION

Its plant in Downsview, Ontario, is Canada's foremost supplier of Supervisory Control and Telemetering systems for utilities and other industries. Products include Metering systems, Battery chargers, Annunciators and Industrial instruments.

Typical major customers: Ontario Hydro, BC Hydro, Orenda Engines, United Aircraft, Government of Trinidad.



— METERMASTER DIVISION

This division distributes imported instruments and meters, providing a complete service including sales, repair, and modification. Distributorships include products of:

AVO Limited
Record Instruments Ltd.
Evershed & Vignoles Ltd.
Rustrak, Inc.
Sullivan Limited
Triplett, Inc.
Jewell Inst. Inc.
International Instruments Inc.
Kipp & Zonen, GmbH
Empro Inc.
West Pyrometers, Inc.
Amprobe Inc.
General Electric

Repair & Modification Center

INTERNATIONAL SYSTCOMS LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET AS AT APRIL 30, 1971

ASSETS

	1971 $	1970 $
Current assets		
Accounts receivable (note 2)	519,920	628,593
Share subscriptions receivable		460,030
Inventories — at the lower of cost or net realizable value (notes 2 and 3)	717,437	709,195
	1,237,357	1,797,818
Investment in and advances to		
R. H. Nichols Co. Limited (note 4)	352,929	198,685
Fixed assets		
Property, plant and equipment — at cost	260,290	230,516
Accumulated depreciation	100,872	75,894
	159,418	154,622
Leasehold improvements — at cost less amortization (1971 — $22,066; 1970 — $14,059)	21,451	26,905
	180,869	181,527
Excess of cost of shares over net assets of consolidated subsidiaries	106,108	106,108
	1,877,263	2,284,138

SIGNED ON BEHALF OF THE BOARD

J. H. BALDWIN, Director

F. V. REGAN, Director

LIABILITIES

	1971	1970
Current liabilities	$	$
Bank advances — secured (note 2)	435,342	589,441
Accounts payable and accrued liabilities	584,573	693,102
Account payable to unconsolidated subsidiary	6,384	21,905
Loans from shareholders		348,461
Current portion of long-term debt	64,594	64,594
	1,090,893	1,717,503
Long-term debt (less current portion shown above)		
Government of Canada loan		2,296
8% loan from a shareholder, repayable in equal monthly instalments of $5,000 plus interest	80,000	140,000
	80,000	142,296
	1,170,893	1,859,799
SHAREHOLDERS' EQUITY		
Capital stock (note 5)		
Authorized —		
5,000 5% preferred shares of $100 par value, redeemable at par		
5,000,000 common shares of no par value		
Issued and fully paid —		
3,334,176 common shares (1970 — 2,525,676 shares)	3,900,774	3,496,524
Deficit	(3,194,404)	(3,072,185)
	706,370	424,339
	1,877,263	2,284,138

AUDITORS' REPORT TO THE SHAREHOLDERS

July 16, 1971

We have examined the consolidated balance sheet of International Systcoms Limited and subsidiaries as at April 30, 1971 and the consolidated statements of earnings, deficit and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at April 30, 1971 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

CHARTERED ACCOUNTANTS

CONSOLIDATED STATEMENT OF EARNINGS for the year ended April 30, 1971

	1971 $	1970 $
Sales	2,551,124	2,716,593
Cost of sales	1,929,290	2,333,886
Gross profit	621,834	382,707
Engineering, selling and administrative expenses	715,867	806,658
Loss before extraordinary items	(94,033)	(423,951)
Extraordinary items		
Provision for warranties on prior years' sales		(52,520)
Loss on sale of shares of an unconsolidated subsidiary		(285,105)
Reduction of advances to unconsolidated subsidiary to estimated net realizable value (note 4)	(28,186)	(340,228)
	(28,186)	(677,853)
Net loss for the year (notes 6 and 7)	(122,219)	(1,101,804)
Loss per share		
Loss before extraordinary items	(.03)	(.30)
Extraordinary items	(.01)	(.49)
Net loss for the year	(.04)	(.79)

CONSOLIDATED STATEMENT OF DEFICIT for the year ended April 30, 1971

	1971 $	1970 $
Balance — beginning of year	3,072,185	1,880,030
Net loss for the year	122,219	1,101,804
Excess of cost of shares over net assets of a subsidiary which is ceasing operations		90,351
Balance — end of year	3,194,404	3,072,185

CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

for the year ended April 30, 1971

	1971 $	1970 $
Source of working capital		
Issue of capital stock	404,250	609,628
Sale of shares of Delta Electronics Limited		1,070,625
Non-interest bearing demand loan from an unconsolidated subsidiary		14,000
	404,250	1,694,253
Use of working capital		
Net loss for the year	122,219	1,101,804
Items not affecting working capital —		
Depreciation and amortization	34,691	33,096
Loss on sale of shares of an unconsolidated subsidiary		285,105
Reduction of advances to unconsolidated subsidiary to estimated net realizable value	28,186	340,228
	62,877	658,429
Applied to operations	59,342	443,375
Repayment of Government of Canada loan	2,296	2,298
Current portion of 8% loan from a shareholder	60,000	60,000
Purchase of fixed assets	34,033	61,575
Advances to R. H. Nichols Co. Limited	182,430	448,750
	338,101	1,015,998
Increase in working capital	66,149	678,255
Working capital (deficiency) — beginning of year	80,315	(597,940)
Working capital — end of year	146,464	80,315

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for the year ended April 30, 1971

1. Principles of consolidation

(a) The consolidated financial statements include the accounts of all subsidiaries with the exception of R. H. Nichols Co. Limited which have not been consolidated since this subsidiary has a dominant minority interest represented by preference shares.

(b) The accounts of a foreign subsidiary have been converted into Canadian funds at the approximate rate of exchange in effect at April 30, 1971.

2. Security for bank advances

The bank advances of the company and its subsidiaries are secured by a pledge of book debts and inventories of those companies.

3. Inventories

Inventories are classified as follows:

	1971 $	1970 $
Finished goods	38,512	47,529
Work in process	297,999	322,071
Raw materials	380,926	339,595
	717,437	709,195

4. Investment in and advances to R. H. Nichols Co. Limited

The net loss of R. H. Nichols Co. Limited for the year ended April 30, 1971, which amounted to $28,186, has been accounted for by an increase in the provision made by the company in arriving at the estimated realizable value of its investment in and advances to R. H. Nichols Co. Limited as follows:

	Cost $	Provision $	Net $
Shares	37,163	37,162	1
Advances	904,180	551,252	352,928
	941,343	588,414	352,929

The company intends to continue to make full provision for any further losses incurred by this unconsolidated subsidiary.

The liability for the advances of $904,180 has not been reduced in the accounts of the subsidiary. The repayment of these advances is subordinated to the subsidiary's bank indebtedness of $472,483 which has been guaranteed by the company. The liability which may arise under this guarantee has been taken into account in the calculation of the provision of $551,252 stated above.

5. Capital stock

(a) During the year the company issued 808,500 common shares for $404,250 cash.

(b) Of the unissued common shares, 207,538 are reserved as follows:

(i) Employee's stock option plan — 153,250 shares as follows:

Number of shares	Price per share	Expire date
10,250	$0.50	May 1, 1972
6,000	0.50	September 1, 1972
6,000	0.75	January 1, 1973
5,000	0.75	April 1, 1973
96,000	0.50	May 1, 1975
30,000	0.50	September 1, 1975
153,250		

(ii) Share purchase warrants—54,288 shares as follows:

Number of shares	Price	Expiry date
34,288	$10.00	June 30, 1971
	12.50	June 30, 1972
20,000	1.00	January 26, 1972
	1.15	January 26, 1973
	1.30	January 26, 1974
54,288		

The share purchase warrants expiring June 30, 1971 were not exercised.

6. Statutory information

(a) Remuneration of directors and officers:

	1971 $	1970 $
(i) Nine directors (1970 — nine) as directors	Nil	Nil
(ii) Seven officers (1970 — seven) as officers	132,188	112,208

Four officers were also directors of the company.

(b) Depreciation and amortization of fixed assets amounted to $34,691 (1970 — $33,096).

(c) Interest on long-term debt amounted to $13,433 (1970 — $16,000).

7. Tax loss carry-forward position

The company and its consolidated subsidiaries have approximate losses for tax purposes available for application against future years' taxable income as follows:

Amount	Available to
77,100	1972
30,100	1973
1,580,400	1974
518,400	1975
158,700	1976
$2,364,700	

8. Commitments and contingencies

(a) As stated in note 4, the company has guaranteed the bank indebtedness of R. H. Nichols Co. Limited which amounted to $472,483 as at April 30, 1971. In addition, the company has guaranteed other indebtedness of the unconsolidated subsidiary amounting to $140,000, including $100,000 payable to certain shareholders of International Systcoms Limited.

(b) Jointly and severally with Ferritronics Limited, the company has guaranteed the indebtedness of the owner of the premises occupied by that company to a limit of $25,000.

(c) Annual rentals under long-term leases amount to approximately $52,000 to 1974 and $33,500 thereafter to 1975.

(d) The company is committed to purchase $50,000 of parts annually from a former subsidiary company for a period of five years which commenced January 1, 1970.

R. H. NICHOLS CO. LIMITED
BALANCE SHEET AS AT APRIL 30, 1971

ASSETS

	1971 $	1970 $
Current assets		
Cash		1,829
Accounts receivable (notes 2 and 3)	511,059	394,713
Accounts receivable from affiliated companies (notes 2 and 3)	31,078	80,770
Inventories — at the lower of cost or net realizable value (notes 2 and 4)	443,229	460,809
Prepaid expenses	23,525	4,829
	1,008,891	942,950
Non-interest bearing loan receivable from affiliated company	—	14,000
Fixed assets		
Machinery and equipment — at cost	168,722	160,392
Accumulated depreciation	139,019	131,594
	29,703	28,798
Leasehold improvements — at cost less amortization (1971 — $13,857; 1970 — $12,029)	5,157	2,143
	34,860	30,941
Deferred royalty agreement costs — less amortization of $1,467	20,533	—
	1,064,284	987,891

SIGNED ON BEHALF OF THE BOARD

J. H. BALDWIN, Director

F. V. REGAN, Director

LIABILITIES

	1971 $	1970 $
Current liabilities		
Bank advances — secured (note 2)	472,483	465,211
Accounts payable and accrued liabilities	459,406	427,831
10% notes payable due 1971 (note 5)	100,000	—
Account payable to parent company	51,548	85,668
Advance payments on contracts	12,245	82,044
Provision for completion of a Nigerian contract	28,000	65,000
	1,123,682	1,125,754
Advance from parent company (note 2)	904,180	735,750
	2,027,862	1,861,504
DEFICIT LESS CAPITAL STOCK		
Deficit	(2,007,896)	(2,053,931)
Capital stock (note 6)		
Authorized —		
6,836 6% non-cumulative (except as described in note 6), non-voting, first preference shares of the par value of $50 each, redeemable at par		
12,640 participating second preference shares of the par value of $50 each, redeemable at par		
50,000 common shares of no par value		
Issued and fully paid —		
6,836 first preference shares	341,800	341,800
10,393 second preference shares	519,650	587,650
5,395 common shares	178,983	178,983
Contributed surplus	3,478	3,478
Reserve for redemption of second preference shares (note 6)	407	68,407
	1,044,318	1,180,318
	(963,578)	(873,613)
	1,064,284	987,891

AUDITORS' REPORT TO THE SHAREHOLDERS

July 16, 197

We have examined the balance sheet of R. H. Nichols Co. Limited as at April 30, 1971 and the statements of earnings, deficit, reserve for redemption of second preferenc shares and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting record and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at April 30, 1971 and the results of its operations and the source and use of it working capital for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for contract sale described in note 1, have been applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

CHARTERED ACCOUNTANTS

STATEMENT OF DEFICIT for the year ended April 30, 1971

	1971 $	1970 $
Balance — beginning of year		
As previously reported	(2,053,931)	(1,622,849)
Reduction arising from change in method of accounting for contract sales (note 1)	6,221	
As restated	(2,047,710)	(1,622,849)
Transfer from reserve for redemption of second preference shares (note 6)	68,000	
	(1,979,710)	(1,622,849)
Net loss for the year	(28,186)	(431,082)
Balance — end of year	(2,007,896)	(2,053,931)

STATEMENT OF RESERVE FOR REDEMPTION OF SECOND PREFERENCE SHARES
for the year ended April 30, 1971

	1971 $	1970 $
Balance — beginning of year	68,407	68,407
Transfer to deficit (note 6)	(68,000)	
Balance — end of year	407	68,407

STATEMENT OF EARNINGS for the year ended April 30, 1971

	1971 $	1970 $
Sales	2,935,864	2,760,389
Cost of sales	2,317,471	2,626,688
Gross profit	618,393	133,701
Selling and administrative expenses	621,881	547,591
Loss before extraordinary item	(3,488)	(413,890)
Extraordinary item		
Expenses of and provision for completion of a Nigerian contract	(24,698)	(17,192)
Net loss for the year (notes 7 and 8)	(28,186)	(431,082)
Loss per share (based on the number of outstanding common and second preference shares)		
Loss before extraordinary item	(.22)	(24.14)
Extraordinary item	(1.55)	(1.00)
Net loss for the year	(1.77)	(25.14)

STATEMENT OF SOURCE AND USE OF WORKING CAPITAL for the year ended April 30, 1971

	1971 $	1970 $
Source of working capital		
Advances from International Systcoms Limited	168,430	448,750
Repayment (advance) of non-interest bearing loan to an affiliated company	14,000	(14,000)
	182,430	434,750
Use of working capital		
Net loss for the year	28,186	431,082
Items not affecting working capital —		
Depreciation and amortization	9,253	10,095
Amount written off deferred new product development costs		46,458
Amortization of deferred royalty agreement costs	1,467	
Reduction of deficit arising from change in method of accounting for contract sales	6,221	
	16,941	56,553
Applied to operations	11,245	374,529
Redemption of second preference shares	68,000	
Purchase of fixed assets	13,172	1,725
Deferred royalty agreement costs	22,000	
	114,417	376,254
Increase in working capital	68,013	58,496
Working capital deficiency — beginning of year	(182,804)	(241,300)
Working capital deficiency — end of year	(114,791)	(182,804)

NOTES TO FINANCIAL STATEMENTS for the year ended April 30, 1971

1. Change in method of accounting for contract sales

As of May 1, 1970 the company changed from the completed contract to the percentage of completion method of recognizing revenue and costs on those contracts for which it is entitled to submit progress billings. The balance of the deficit account has been adjusted to record the excess of progress billings of $64,560 over related costs of $58,339 of such contracts in progress as at May 1, 1970. This change in method has resulted in the net loss for the year ended April 30, 1971 being reduced by $8,565. There is no income tax effect of this change as a result of available losses for tax purposes.

2. Security for bank advances

The bank advances are secured by a pledge of book debts and inventories and a floating charge debenture of $400,000. The bank advances are guaranteed by the parent company, International Systcoms Limited, and by a shareholder up to $125,000. The parent company has also subordinated repayment of its advances in favour of the bank.

3. Accounts receivable and Accounts receivable from affiliated companies

(a) Holdbacks in the amount of $41,691 (1970 — $96,374) are included in accounts receivable.

(b) International Systcoms Limited, the parent company, has guaranteed the company's receivables from affiliated companies.

4. Inventories

Inventories are classified as follows:

	1971 $	1970 $
Finished goods	127,731	98,554
Work in process	117,209	163,908
Raw materials	198,289	198,347
	443,229	460,809

5. 10% notes payable

The parent company, International Systcoms Limited, has guaranteed payment of these notes, which are payable to certain shareholders of the parent company.

6. Capital stock

The holders of the first preference shares are entitled to receive fixed preferential non-cumulative cash dividends at the rate of 6% per annum (called the fixed dividends). They are also entitled to receive with respect to each fiscal year of the company preferential cumulative cash dividends equal to the lesser of:

(i) 15% of the net earnings of the company for such fiscal year; or

(ii) 6% of the amount paid up on the first preference shares then outstanding; less any fixed dividends previously declared and paid on such shares with respect to such fiscal year. There are preferential cumulative cash dividends in arrears amounting to $5,382, being 15% of the net earnings of the company for the year ended April 30, 1968.

The first preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value plus unpaid cumulative dividends; provided always that the company shall not redeem or purchase for cancellation any first preference shares so long as any second preference shares are issued and outstanding.

No dividend shall at any time be declared payable on the second preference shares or the common shares, unless at the same time a dividend in the same amount per share is declared payable on the common shares or second preference shares as the case may be and the holders of first preference shares consent in writing.

The second preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value.

So long as any of the second preference shares are outstanding, the company shall on or before April 30 in each year set aside in a special account on its books an amount equal to 25% of the net earnings of the company for its last preceding fiscal year, which amount shall be applied as soon as practicable for the redemption of second preference shares provided that the company shall not be required to so apply an amount less than $50,000.

On May 8, 1970, the trustee advised holders of the second preference shares that 1,360 shares with a par value of $68,000 would be redeemed on June 15, 1970. The company forwarded funds to the trustee sufficient to effect the redemption and consequently $68,000 has been transferred from the reserve for redemption of second preference shares to the deficit account as at April 30, 1971.

7. Statutory information

(a) Remuneration of directors and senior officers, as defined by the Business Corporations Act, 1970 amounted to $90,796 (1970 — $69,459).

(b) Depreciation and amortization of fixed assets amounted to $9,253 (1970 — $10,095).

(c) Amortization of deferred royalty agreement costs amounted to $1,467 (1970 — Nil).

8. Tax loss carry-forward position

The company has losses for tax purposes available for application against future years' taxable income as follows:

Amount	Available to
634,833	1974
433,699	1975
61,765	1976
$1,130,297	

9. Commitments

The company is obligated under a lease for its premises to pay $20,600 per annum to January 7, 1974.